Service Date: November 6, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of GREAT FALLS GAS COMPANY, for Authority to Increase Rates and Charges for Natural Gas Service.	))))	UTILITY DIVISION DOCKET NO. D96.7.123 INTERIM ORDER NO. 5933a

INTERIM ORDER

1. On June 19, 1996, Great Falls Gas Company (GFG or Company) filed its annual gas cost tracker with the Montana Public Service Commission (Commission) seeking authority to increase rates for natural gas service by $385,906. The filing was assigned Docket No. D96.6.108. GFG indicated that if the traditional gas tracker accounting was used the increase in the gas tracker would be $1,249,479. In its filing GFG included an adjustment crediting the gas tracker balance with a corresponding debit to Storage Gas Inventory. The adjustment of $863,573 was the result of re-valuing storage gas at the Gas Cost Tracker Rate instead of using the current commodity cost only method. The current method values monthly storage activity at the monthly average commodity cost only which can vary significantly from month to month, and it leaves all the non-commodity gas costs to flow into the tracker account, making the gas tracker balance volatile. GFG stated that Energy West Inc.'s Wyoming utility, Cody Gas Company, has Wyoming PSC approval to value its storage inventory at its gas tracker rate (GFG is a division of Energy West).

2. GFG indicated that in its upcoming general case (now filed and consolidated with this tracker) it would be requesting a "look-forward" treatment of storage inventory. In the current tracker period storage inventory was kept at lower than normal levels. The planned on-system firm capacity supplies listed in the last tracker have been acquired by Montana Power Company (MPC). This left GFG no redundancy in up-stream firm capacity along with uncertainty about

peak day requirements. GFG contracted for additional on-system firm supplies as they became available. The rate impact is approximately $.02 per Mcf as a result of the higher rate base.

3.   Two major items resulted in GFG under-recovering gas costs in the last tracking period. GFG significantly underestimated the price required to settle renegotiations of its assigned contracts and the prices required to procure other gas on MPC's system. GFG believes it achieved through settlement prices equal to the lowest prices that would have resulted from arbitration. The second item contributing to GFG's under-recovery was the extensive testing that GFG and MPC did of the
Blaine County #3 firm receipt point. During the testing GFG purchased expensive peaking gas at high daily spot prices. Because of this experience, GFG has determined that it would be much more cost effective to store peaking gas upstream from Blaine County #3 rather than to purchase daily spot priced gas. The additional storage is incorporated in the current gas tracker.

4.   GFG believes that the Company needs to have 51,000 MMBtu/day of upstream firm capacity if it is to maintain a 13 percent market reserve with all curtailables included. Last summer, GFG requested that MPC begin accepting up to 30,000 MMBtu/day for Energy West's account on a firm basis from Blaine County #3. This matter remains unresolved and GFG and the other concerned parties are working towards agreements. GFG feels that the Blaine County #3 line should be used to its full capacity and that it should be developed as a firm peaking service.

5.   In the past GFG has planned it peak day requirements based on the February 2, 1989, peak day. January 29, 1996, came within 4 degree days of matching the February 2, 1989, peak day. From an analysis of this recent experience, GFG is comfortable that its peak day requirements have not increased and that its current firm capacity reservation on MPC's system is more than sufficient.

6.   On July 8, 1996, GFG filed a general rate application which requested an increase in annual revenues for natural gas service of $962,773. The filing was assigned
Docket No. D96.7.123. In the application GFG requested a return on equity of 13.0 percent. The filing included a request to increase the

No Interest Loan surcharge from $.0423 per Mcf to $.0838 per Mcf. The Company also requested that the maximum amount of these loans be increased from $1,500 (set in 1981) to $2,000 to reflect the increases in the cost of materials and labor for installation of conservation equipment and measures since 1981. GFG did not propose any change to the Furnace Efficiency surcharge of $.0078 per Mcf. The application also requested revisions to the Company’s transportation tariffs.

7. On July 11, 1996, the Commission issued a Notice of Application and Intervention Deadline. The intervention deadline was August 1, 1996.

8. On July 23, 1996, the Montana Consumer Counsel (MCC) filed a Petition for General Intervention in order to represent the interests of the consuming public.

9. On July 25, 1996, the Commission approved Procedural Order No. 5933. That order established a hearing date of January 7, 1996.

10. On August 1, 1996, the Montana Department of Public Health and Human Services (HHS) requested intervention in this Docket to represent the interests of low income consumers.

11. On August 7, 1996, the Commission issued a Notice of Commission Action which established August 23, 1996, as the final day for written discovery from intervenors to GFG on its applications and prefiled testimony. The Commission on August 7, 1996, issued a Notice of Commission Action which consolidated Docket D96.6.108 into Docket No. D96.7.123. Finally, on August 7, 1996, the Commission issued a Notice of Staff Action which granted intervention to MCC and HHS.

12. On September 18, 1996, HHS filed its testimony in this Docket.

13. On September 20, 1996, MCC filed its testimony in this case recommending that GFG be permitted a revenue increase of $37,392. The return on equity included in the MCC testimony was 10.5 percent.

14. On October 21, 1996, GFG filed its rebuttal testimony in this Docket.

15. On October 24, 1996, GFG and MCC filed a stipulation in

Docket No. D96.7.123 with the Commission. The parties agreed that excluding the impact of cost of capital adjustments, GFG requires a revenue increase in the amount of $179,118 in order to achieve a return on rate base of 9.56 percent, which is equivalent to the MCC recommended return. The 9.56 percent overall rate of return has a return on equity of 10.5 percent. If the stipulated revenue requirement were based on an overall rate of return of 10.50 percent (using a return on equity of 11.5 percent from the last case) the amount of the required increase would be $274,435. The stipulation is based on sales volumes of 4,129,919 Mcfs. The amount of rate base used in the stipulation was $11,627,050.

16. In the stipulation the parties found that the No Interest Loan Program (NIP) will be re-evaluated by MCC and GFG to ascertain what the proper objective of the program should be as well as whether or not the program, as it exists, is the appropriate mechanism to meet those objectives; and that during the evaluation the NIP surcharge should be increased to $.0718 per Mcf. This surcharge is computed based on sales volumes of 4,646,698 Mcfs. During the evaluation period the number of loans will be limited to 525, of no more than $1,500 per loan. GFG and MCC will collaborate in evaluating the program. At the end of the evaluation the parties will prepare and submit a report on the program to the Commission.

17. MCC and GFG agreed that the costs associated with expert witnesses and consultants associated with this Docket, MPC Docket No. D96.2.22, and the soon to be filed GFG rate design/restructuring case should be accumulated in an account which is collected through a surcharge on all volumes sold or transported, using a three-year amortization period until all such costs are fully recovered.

18. GFG and MCC agreed that GFG’s proposed transportation tariffs should be adopted by the Commission, but that they should be modified to include the provision than any over or under recoveries of gas costs that would have been applicable to the customer as a full service customer of the utility should be recovered by that same

customer if the customer elects to be served under the transportation tariff.

Gas Tracker

19. After a review of the gas tracker filing the Commission approves an interim increase in gas costs of $385,906 as filed by GFG. This will result in a gas tracker surcharge of $.0949 per Mcf based on sales volumes of 4,067,000 Mcfs. According to the cover letter which was attached to the stipulation filed October 24, 1996, GFG indicated that MCC had no objection to the proposed gas tracker surcharge. The gas tracking period approved in this Order ends on June 30, 1997. The Commission finds that the accounting change proposed by GFG, to re-value storage inventory at the Gas Cost Tracker Rate is appropriate because it will result in lower volatility than the current method of accounting for storage at commodity costs only. In approving this tracker, the Commission is accepting GFG's position on the renegotiations of its assigned contracts for interim purposes. GFG in future gas tracker filings will be expected to demonstrate that the prices from each of the assigned contracts is reasonable given contract requirements as well as natural gas market prices. Also, the Commission in approving this Order does not establish precedent for approval of prepaid gas amounts to be included in rate base.

NIP Loan Program

20. The Commission finds that the NIP Loan Program has cumulative unrecovered costs of $333,578. In order for GFG to recover these costs over sales and transportation volumes of 4,464,698 Mcfs the Commission approves an increase in the NIP Loan surcharge from $.0423 per Mcf to $.0718 per Mcf. Those volumes include:

Great Falls Gas	4,129,919
Great Falls Gas-Transportation	456,683

Cascade Gas (7/95-6/96)	8,792
West Yellowstone Gas (7/95-6/96)	51,304
TOTAL	4,646,698

This increase is necessary to allow the recovery of the costs associated with the program, however, the increase represents a 70 percent increase over the existing surcharge. Given the large magnitude of this increase, the Commission agrees with the parties that it is proper to re-evaluate the NIP Loan Program. For interim purposes the new surcharge of $.0718 will remain in effect until the evaluation is completed and a report is filed with the Commission.

Interim Revenue Requirement

21. As a preliminary matter the Commission finds that the stipulation between GFG and MCC represents agreement between the parties on all revenue requirement issues with the exception of cost of capital. The Commission finds that the stipulation represents a reasonable starting point in the determination of interim relief in this Docket. However, the stipulated increase of $179,118 is based on the MCC recommended cost of capital including a 10.5 percent return on equity. In determining interim relief, it is the practice of this Commission to use the return on equity from the last rate case. GFG Docket No. 92.10.57, Order No. 5665b, which was approved on May 18, 1993, established a return on equity of 11.5 percent. A review of interest rates for thirty year treasury bonds in May of 1993 showed a cost of 6.64 percent. In August of 1996, the interest rate for thirty year treasury bonds was 6.87 percent. Given how close the risk free interest rates are in the above analysis, the Commission finds that the appropriate cost of equity is 11.5 percent. Using that return on equity produces an overall rate of return of 10.05 percent. Based on that overall rate of return, the Commission approves an interim increase for GFG in the amount of $274,435.

Transportation Tariffs

22. In its general rate case filing, GFG proposed distribution transportation tariffs. As requested by the parties in their stipulation, the Commission approves the proposed transportation tariffs for interim purposes. When filing these tariffs, GFG must include a summer/winter differential and must include the provision that any over or under recoveries of gas costs that would have been applicable to the customer as a full service customer of the utility should be recovered by that same customer if the customer elects to be served under the transportation tariff.

Conclusions of Law

1. GFG is a public utility furnishing natural gas service to consumers in the State of Montana. As such, it is subject to the supervision, regulation and control of this Commission. Section 69-3-102, MCA.

2. The Commission properly exercises jurisdiction over the Company's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides in part: "The Commission may, in its discretion, temporarily approve increases or decreases pending a hearing or final decision."

4. The rates approved herein are a reasonable means of providing interim relief to GFG. The rebate provisions of Section 69-3-304, MCA, protect ratepayers until there is a Final Order in this Docket. If the Commission in its final order in this Docket determines a lower revenue requirement than contained in this Interim Order, the difference shall be rebated to customers with interest at the rate of 11.5 percent.

Order

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. GFG is hereby authorized to increase base rates by $274,435 on an interim basis. This interim increase shall be applied to all

customer classes. This interim increase shall be applied to all customer classes on a uniform percent basis.

2. GFG is hereby authorized to increase rates by $385,906 to reflect the gas tracking period from July 1, 1995, to June 30, 1996, on an interim basis. This interim gas tracking increase shall be applied to all customer classes as a surcharge of $.0949 per Mcf with the exception of transportation customers. The current gas tracking period will end on June 30, 1997.

3. GFG is hereby authorized to recover the costs associated with the No Interest Loan Program through a surcharge of $.0718 per Mcf which will be applied to the volumes set forth in Finding of Fact Number 20. That surcharge will remain in effect until MCC and GFG complete their joint re-evaluation of this program.

4. GFG is hereby authorized to file transportation tariffs which comply with the requirements set forth in Finding of Fact No. 22.

5. Nothing in this Interim Order precludes the Commission from adopting in its Final Order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this Interim Order.

6. Interim approval of any matters in this Docket should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

7. The interim implementation of these rate changes is to be effective for meters read on and after November 4, 1996.

DONE IN OPEN SESSION at Helena, Montana, this 4th day of November, 1996, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.